

# **LOCAL OPTION INCOME TAXES IN INDIANA**

**INDIANA COUNTY AUDITORS' CONFERENCE**

**INDIANAPOLIS, INDIANA**

**OCTOBER 26, 2011**

# COUNTY ADJUSTED GROSS INCOME TAX (CAGIT)

## **“BASE” OR “LEGACY” CAGIT**

- **REVENUE ATTRIBUTABLE TO THE RATE OF 0.25% IS USED FOR PROPERTY TAX REPLACEMENT CREDITS**
- **REVENUE ATTRIBUTABLE TO A RATE IN EXCESS OF 0.25% IS USED FOR GENERAL SPENDING**

## **“PROPERTY TAX FREEZE” OR “LEVY REPLACEMENT” CAGIT**

- **USED TO FREEZE LEVIES AND OBTAIN FUTURE REVENUE GROWTH FROM INCOME TAXES**
- **A FREEZE CAN BE THAWED, BUT ONCE ADOPTED, A RATE CAN NEVER BE REDUCED OR RESCINDED**

## **“PROPERTY TAX RELIEF” OR “PROPERTY TAX CREDITS” CAGIT**

- **USED TO PROVIDE HOMESTEAD CREDITS, PROPERTY TAX REPLACEMENT CREDITS, OR BOTH**
- **IS IN ADDITION TO PTRC FROM “BASE” CAGIT**

## **“PUBLIC SAFETY” CAGIT**

- **USED TO FUND A BROAD ARRAY OF PUBLIC SAFETY NEEDS**
- **MUST ADOPT “LEVY FREEZE” CAGIT, “PROPERTY TAX RELIEF” CAGIT, OR BOTH FIRST**

## **COUNTY OPTION INCOME TAX (COIT)**

### **“BASE” OR “LEGACY” COIT**

- **USED TO FUND HOMESTEAD CREDITS, GENERAL SPENDING, AND CERTAIN QUASI-GOVERNMENTAL ENTITIES OR ACTIVITIES**

### **“PROPERTY TAX FREEZE” OR “LEVY REPLACEMENT” COIT**

- **SAME AS “PROPERTY TAX FREEZE” OR “LEVY REPLACEMENT” CAGIT**

### **“PROPERTY TAX RELIEF” OR “PROPERTY TAX CREDITS” COIT**

- **SAME AS “PROPERTY TAX RELIEF” OR “PROPERTY TAX CREDITS” CAGIT**

### **“PUBLIC SAFETY” COIT**

- **SAME AS “PUBLIC SAFETY” CAGIT**

# COUNTY ECONOMIC DEVELOPMENT INCOME TAX (CEDIT)

## **“BASE” OR “LEGACY” CEDIT**

- **USED BY COUNTIES, CITIES, AND TOWNS WITH CAPITAL IMPROVEMENT PLANS FOR ECONOMIC DEVELOPMENT, CAPITAL PROJECTS, REGIONAL VENTURE CAPITAL FUNDS, AND *ANY OTHER LAWFUL PURPOSE***

## **“HOMESTEAD CREDIT” CEDIT**

- **MAY BE ADOPTED TO MITIGATE PROPERTY TAX SHIFTS RESULTING FROM THE PROPERTY TAX EXEMPTION FOR INVENTORY**
- **IS IN ADDITION TO HOMESTEAD CREDITS FROM CAGIT OR COIT**

## **DEPARTMENT OF REVENUE**

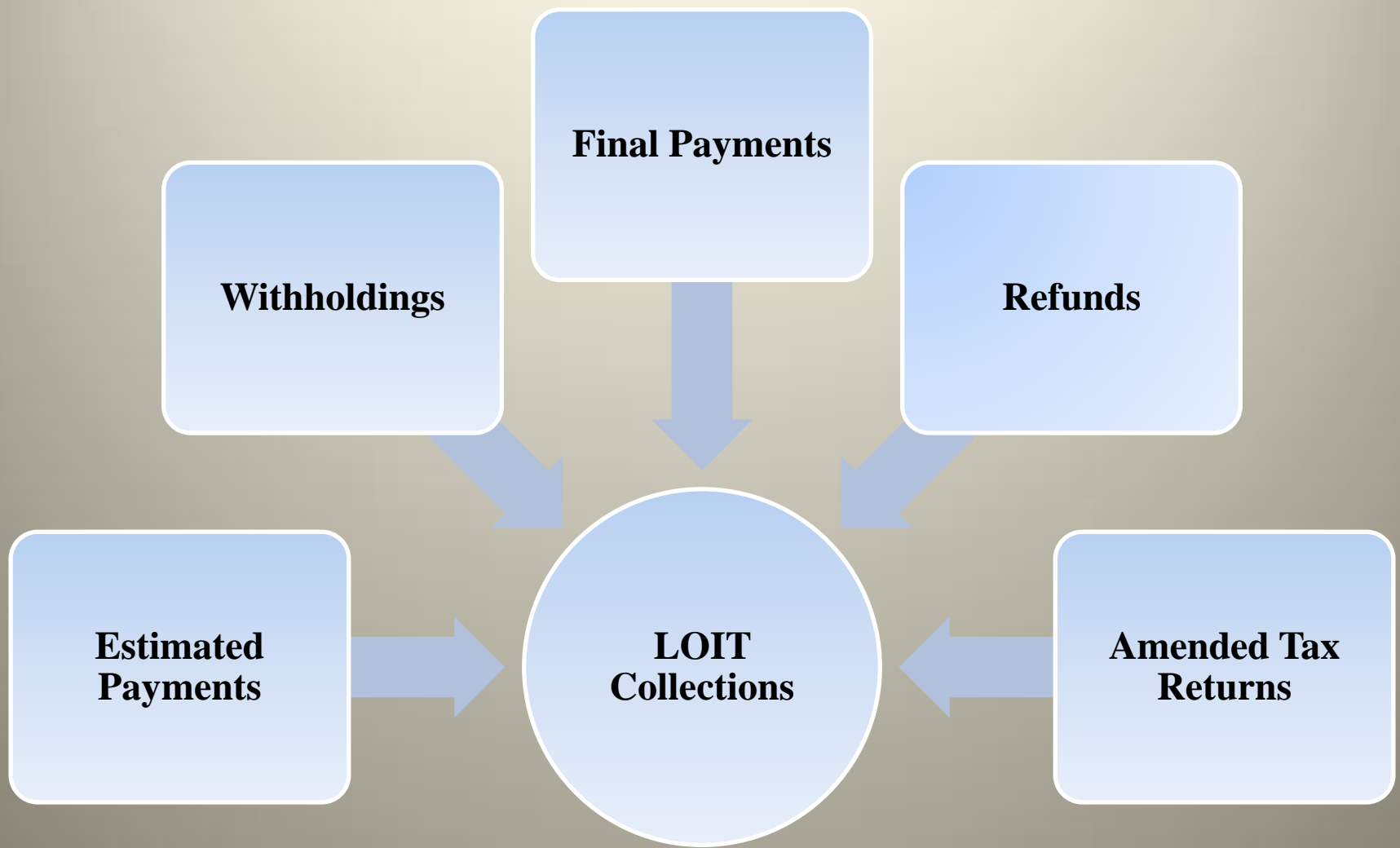
- **COLLECTS LOITS**
- **REPORTS TO STATE BUDGET AGENCY THE INFORMATION NEEDED TO CALCULATE CERTIFIED DISTRIBUTIONS AND BALANCES**
- **ADMINISTERS LOIT DISTRIBUTIONS TO SPECIAL DISTRICTS**

## **STATE BUDGET AGENCY**

- **DETERMINES CERTIFIED AND SUPPLEMENTAL DISTRIBUTIONS**
- **MAINTAINS ACCOUNTINGS OF COLLECTIONS, DISTRIBUTIONS, INTEREST EARNINGS, AND BALANCES**

## **DEPARTMENT OF LOCAL GOVERNMENT FINANCE**

- **INSTRUCTS AUDITORS ON THE ALLOCATION OF CERTIFIED DISTRIBUTIONS**
- **CERTIFIES THE “LEVY FREEZE” RATES NEEDED**



# **STATUTORY DETERMINATION OF CERTIFIED DISTRIBUTIONS**

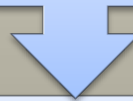
**STARTS WITH THE AMOUNTS REPORTED ON TAX RETURNS PROCESSED DURING THE FISCAL YEAR ENDING IN THE CALENDAR YEAR IN WHICH THE DETERMINATION IS MADE**



**STATUTORY ADJUSTMENTS FOR RATE CHANGES NOT FULLY REFLECTED ON THE PROCESSED TAX RETURNS**

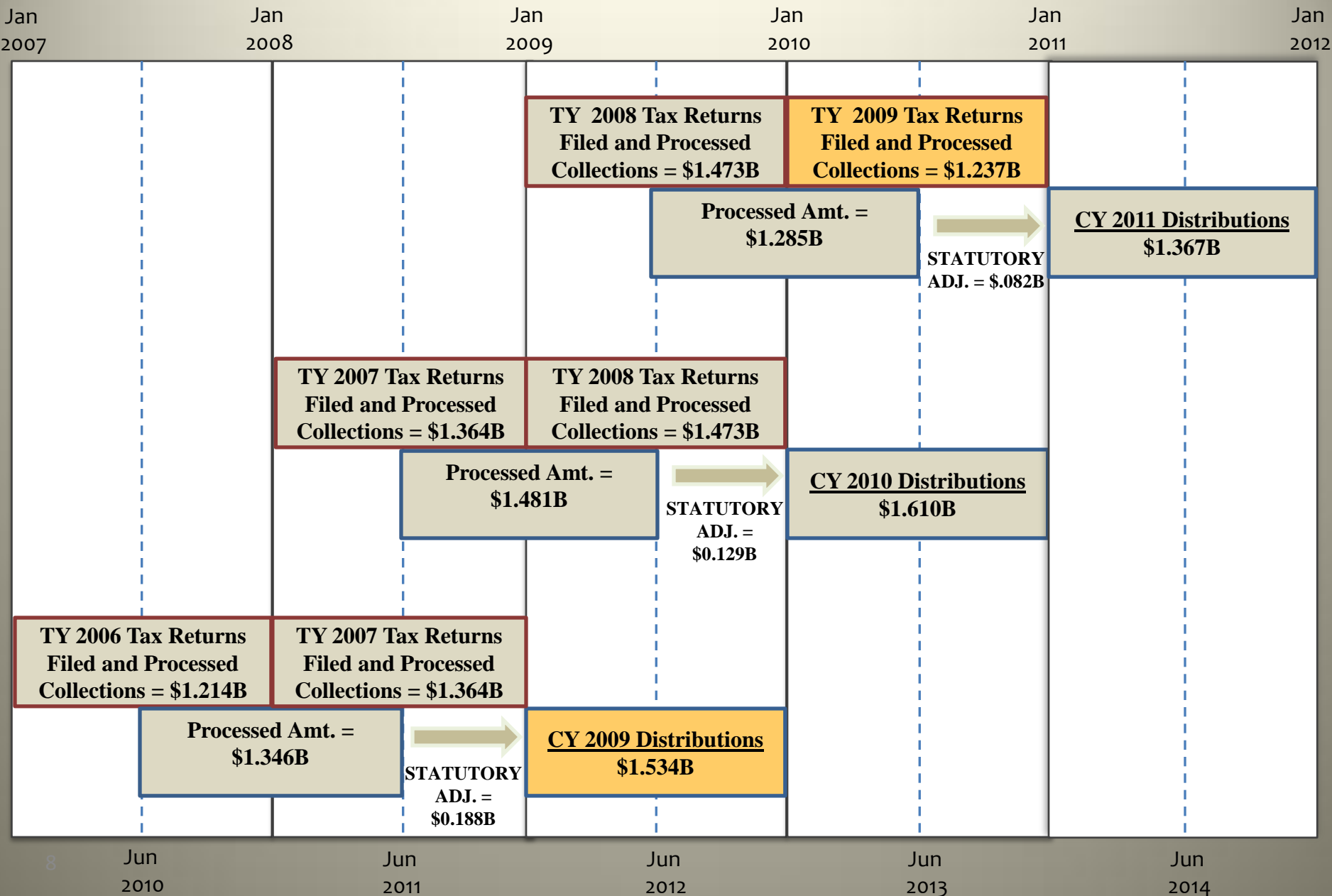


**STATUTORY ADJUSTMENTS FOR NEGATIVE BALANCES**



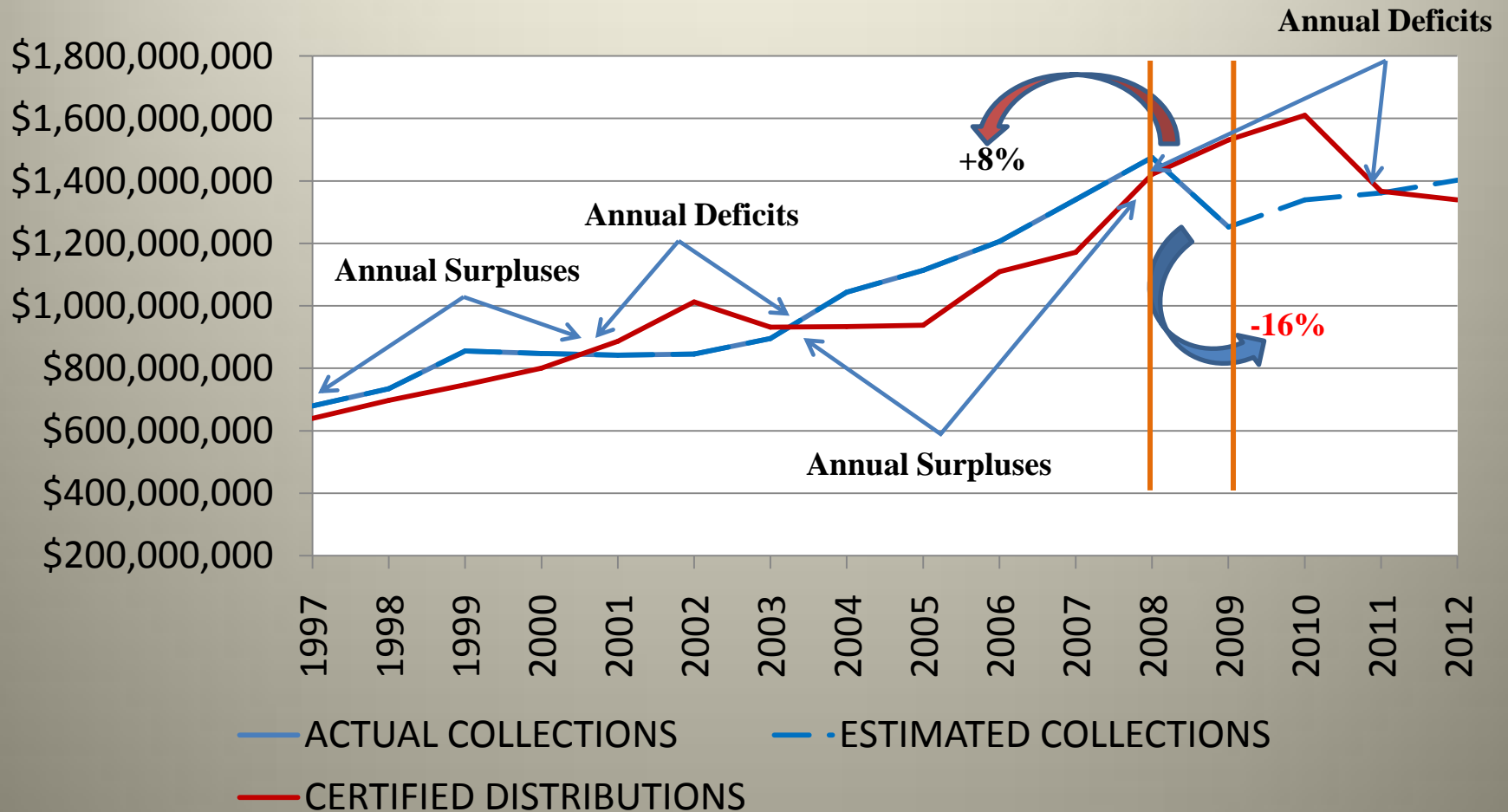
**STATUTORY ADJUSTMENTS FOR A CLERICAL OR MATHEMATICAL ERROR MADE IN A PRIOR DETERMINATION**

# TIMING OF CERTIFIED DISTRIBUTIONS AND COLLECTIONS





# BALANCES RISE AND FALL OVER THE COURSE OF BUSINESS CYCLES



## ADDRESSING NEGATIVE BALANCES

### EXAMPLE

**CY 2010 BALANCE = (\$500,000)**  
**CY 2011 CERTIFIED DISTRIBUTION = \$1,500,000**  
**AMOUNTS ON TAX RETURNS PROCESSED  
DURING FY 2012 = \$2,000,000**

**CY 2013 CERTIFIED  
DISTRIBUTION =  
\$1,500,000**

### EXAMPLE

**CY 2010 BALANCE = (\$500,000)**  
**CY 2011 CERTIFIED DISTRIBUTION = \$1,500,000**  
**AMOUNTS ON TAX RETURNS PROCESSED  
DURING FY 2012 = \$2,250,000**

**CY 2013 CERTIFIED  
DISTRIBUTION =  
\$1,750,000**

### EXAMPLE

**CY 2010 BALANCE = (\$500,000)**  
**CY 2011 CERTIFIED DISTRIBUTION = \$1,500,000**  
**AMOUNTS ON TAX RETURNS PROCESSED  
DURING FY 2012 = \$1,300,000**

**CY 2013 CERTIFIED  
DISTRIBUTION =  
\$1,300,000**

# **HEA 1001-2011 RESTRICTS SUPPLEMENTAL DISTRIBUTIONS TO THE AMOUNTS BY WHICH BALANCES EXCEED 150% OF CERTIFIED DISTRIBUTIONS FOR THE FOLLOWING YEAR**

## **EXAMPLE**

**IN ORDER TO RECEIVE A SUPPLEMENTAL DISTRIBUTION IN 2012, A COUNTY'S 2009 BALANCE MUST HAVE EXCEEDED ITS 2012 CERTIFIED DISTRIBUTION BY MORE THAN 150%.**

**THE BUDGET AGENCY WILL NOT BE REDUCING CERTIFIED DISTRIBUTIONS FROM THE AMOUNTS REPORTED ON PROCESSED TAX RETURNS IN ORDER TO ACHIEVE THE 150% THRESHOLD.**

# **IMPORTANT POINTS**

**WHEN DETERMINING CERTIFIED DISTRIBUTIONS AND BALANCES, THE BUDGET AGENCY MUST USE KNOWN INFORMATION FROM TAX RETURNS.**

**THE BUDGET AGENCY'S AUTHORITY TO CERTIFY A DISTRIBUTION AMOUNT DIFFERENT FROM THE AMOUNT DERIVED FROM PROCESSED TAX RETURNS IS STATUTORILY DEFINED AND LIMITED.**

**RELIANCE ON TAX RETURNS GUARANTEES THAT OVER TIME ALL THAT IS COLLECTED IS DISTRIBUTED, BUT RESULTS IN ANNUAL SURPLUSES AND DEFICITS OVER A BUSINESS CYCLE.**

**FOR A COUNTY WITH A NEGATIVE BALANCE, ADJUSTMENTS WILL BE MADE TO CAPTURE GROWTH IN THE FISCAL YEAR PROCESSED AMOUNTS UNTIL THE DEFICIT IS ELIMINATED.**

QUESTIONS?